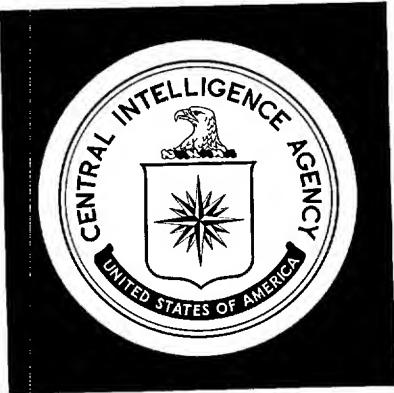


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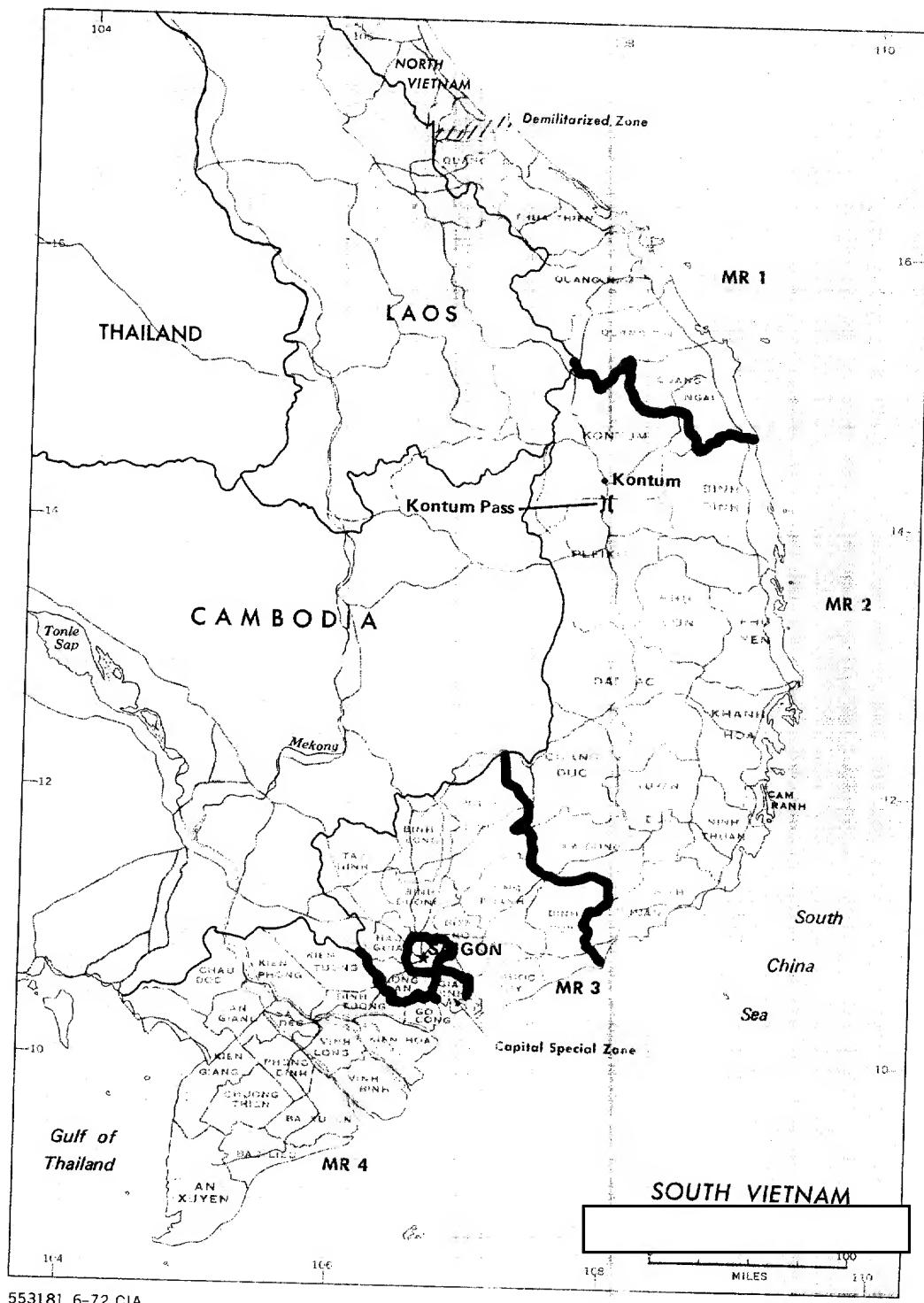
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VIETNAM: Fighting remains generally light in most areas of the country as the Communists continue to prepare for new action.

Government defenders in Kontum City yesterday repulsed still another light attack against the city's northern defenses. Some fighting erupted as the South Vietnamese moved to clear small pockets of troops still in Kontum City, and clashes occurred farther south in the Communist-held Kontum Pass. Interrogations of several prisoners captured during the fighting indicate that a replacement regiment suffered heavy casualties from bombings even before moving into the area, possibly upsetting the timetable for the campaign against Kontum City.

* * * *

Monsoon rains are forcing a sharp reduction in Communist logistic activity in the Laotian panhandle; sensors indicate that vehicular movements are down to about half the level noted in mid-May. The North Vietnamese are attempting to limit the effects of the rains by repairing roadways and pushing through supplies. Heavy supply traffic continues to move south through the Demilitarized Zone, where the current southwest monsoon has relatively little effect.

Farther south, along the Communist supply corridor in eastern Cambodia, US pilots report large-scale vehicular movements toward the central highlands and toward South Vietnam's Military Region 3. The roads in northeast Cambodia as yet are largely unaffected by the rains, but the Communists already are preparing for bad weather.

* * * *

Lightering operations are reportedly being attempted from the Chinese freighters near Hon La Island south of Vinh. Initial reports from US pilots

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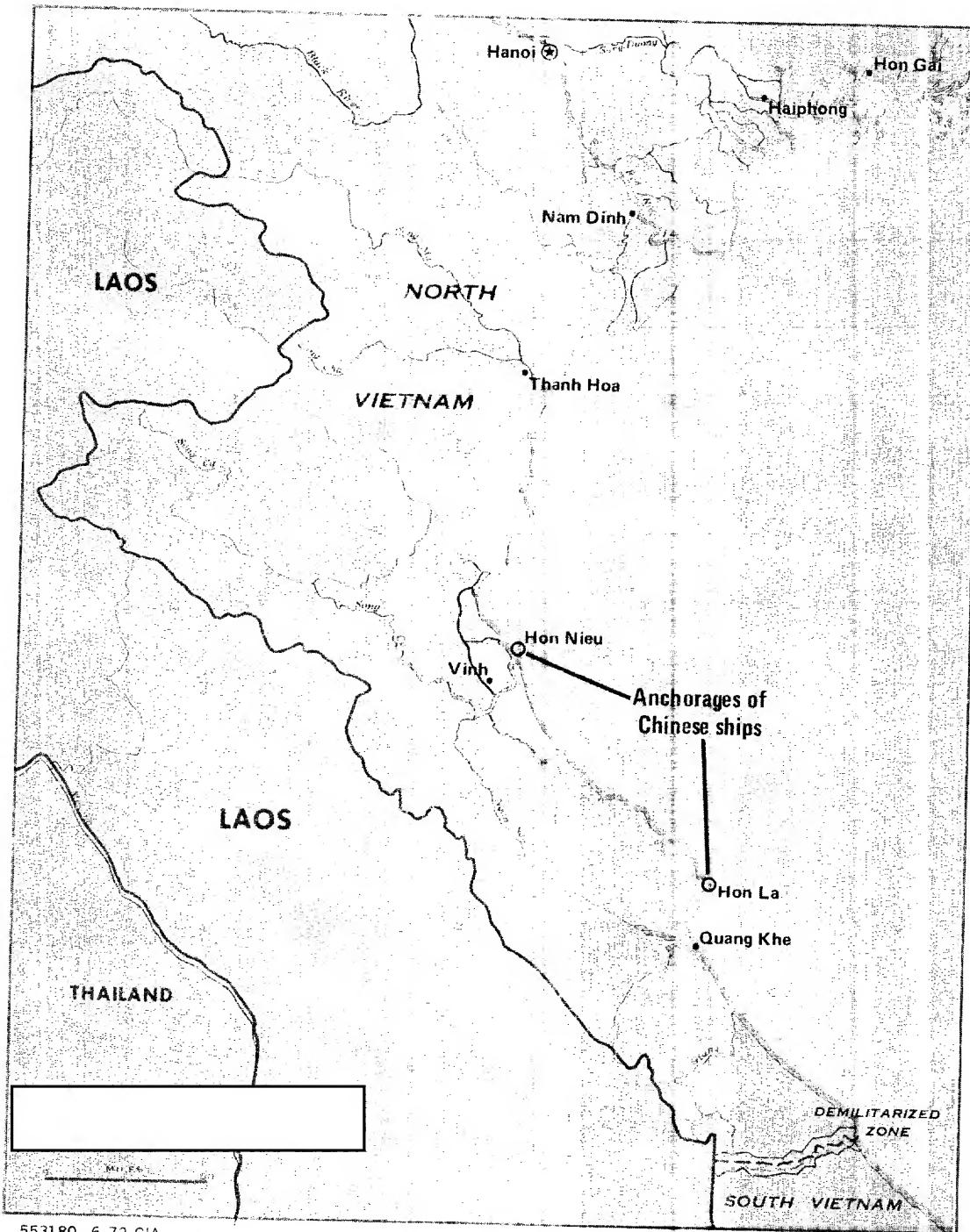
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C in the area state that air strikes yesterday destroyed six of 12 North Vietnamese lighters along the coast south and west of Hon La. To the north, at the Hon Nieu anchorage serving Vinh, photography of 26 and 29 May has provided further indications of lightering activity involving at least two of the Chinese freighters there.

* * * *

The South Vietnamese Senate's rejection of the emergency decree powers bill by a 27-21 vote is a political slap in the face for President Thieu, but it will not seriously impair his ability to deal with the current crisis. Thieu had personally lobbied for the bill with key members of the Senate. He was unwilling, however, to accept any compromise, which might have produced enough votes to pass it. Even without the measure, Thieu can take further actions under his martial law powers. He probably will also try to get the Lower House to override the Senate by approving the bill by a two-thirds vote, but it will be necessary to convert some independent and opposition deputies.

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IRAQ: In the wake of its nationalization of the major properties of the western oil consortium (IPC), the government apparently is turning to the USSR for assistance in marketing oil.

The Iraqi foreign minister and a delegation including the director of oil affairs arrived yesterday in Moscow at the invitation of the Soviet government. The USSR already is heavily involved in operation of the Rumaila oilfield, an IPC concession taken over by Iraq a decade ago. Soviet equipment and technicians brought that field into production in April, and the USSR is taking some Rumaila oil in repayment for its assistance. Iraq has halted all IPC northern oil operations, but it could restore output quickly because most oil production workers are Iraqi nationals. The most serious problem, however, will be marketing the oil. Iraq's National Oil Company has had limited success in marketing the output from Rumaila not taken by the USSR.

Moscow currently is taking some oil from the Sarir oilfield in Libya, which that government seized from the British Petroleum Company earlier this year. The USSR, however, probably would not be willing or able to divert adequate tanker capacity to handle any significant portion of Iraq's oil production, nor would it be able to market large quantities of this oil.

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PANAMA: The government has taken over operation of the US-owned power and light company following a long dispute over rates and finances.

In an effort to force the government to pay over \$2 million in past utility bills, the company recently stopped paying its fuel suppliers. Faced with the specter of a total disruption of electric service in the Panama City area, Torrijos responded by ordering a 30-day intervention. Panama is demanding that the company pay its debts and provide a tangible guarantee that it will undertake a \$48 million five-year investment program to meet the growing demand for electricity and telephone service.

The government has no interest in taking on a new and expensive burden and does not want to scare off foreign investors. On the other hand, if the company refuses to meet the government conditions, it reportedly will be expropriated at the end of the 30-day period.

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SOUTH KOREA: The opposition New Democratic Party (NDP) is intensifying its efforts to force an end to the government's boycott of the National Assembly, which has been in effect since the passage of "emergency" legislation last December.

The NDP has called the assembly into special session three times, but President Pak has refused to allow government party representatives to attend because the opposition intends to use the forum to criticize his domestic policies. Frustrated by this situation, 30 NDP assemblymen on 2 June occupied the office of the National Assembly speaker, who had tried to mediate the dispute.

The government has responded by tightening its already rigorous censorship of reporting on NDP activities in the domestic media. Pak, moreover, appears adamant in his refusal to agree to a joint special session of the assembly prior to its next regular session in September. The NDP's efforts, particularly if they gain student support, could prompt him to call the assembly into special session later this month on his own terms, which would enable the government to exercise firm control over the proceedings.

Any government action will be influenced by the timing of the initial round of plenary North-South Red Cross talks to be held in Seoul. Pak is particularly anxious to avoid any domestic criticism while the North Koreans are in the South. The formal Red Cross talks originally were scheduled to begin this month, but procedural wrangling at the working sessions may delay their start for several more weeks.

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UK: The overwhelming vote by the rail workers to continue pushing their pay demands has given the Heath government's labor policy a setback.

The government's emergency powers under the new Industrial Relations Act, including a cooling-off period and compulsory balloting of union members, now are close to being exhausted. The government had ordered the cooling-off period in April. In calling for the compulsory ballot this week, the government may have hoped to show that the rank and file did not support the strong stand of their leadership. But the workers backed their leaders six to one.

The differences between the unions and management now are minor, but the unions are adamant on making the pay increase effective a month earlier than management offered. Prime Minister Heath, trying to maintain an anti-inflationary policy, has not urged management to move closer to the unions' demands. Without a compromise settlement, further slowdowns or even a strike could occur.

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TURKEY: Opium gum output will decline drastically this year because of poor weather during the poppy growing season. An official Turkish survey shows that only one third of the 52,000 acres licensed to produce poppies is capable of yielding any opium. The number of farmers legally growing poppies is about 22,000 instead of the 78,000 originally licensed. The Turkish Government has recently announced a 30-percent increase in the price to be paid farmers for opium gum this year. The government hopes that this move, combined with more efficient enforcement procedures, will enable it to compete more effectively against the illicit market. Nonetheless, the illicit buyers could easily outbid government purchasers, if control measures prove inadequate.

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PHILIPPINES: The already badly frayed reputation of President Marcos has suffered further damage as a result of charges by a Constitutional Convention delegate that its members were being bribed by supporters of Marcos. The President's vehement denials and the harassment of his accuser have been widely interpreted as evidence of guilt. Anti-Marcos factions in the convention will doubtless try to capitalize on the public outrage to get a provision written into a new draft constitution that would specifically bar Marcos from running for office again. It is also possible that the scandal will so increase public disillusionment with the convention's performance that its continuation would be jeopardized. This would end Marcos' hopes of retaining power legally; under the present constitution, he cannot run after his second term expires next year.

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CHINA-CANADA: A Canadian mission in Peking has just concluded a sale of 1.5 million tons of high-grade wheat for delivery during a nine-month period beginning in July. This sale augments a three-million-ton contract signed with Ottawa last December. It will bring China's wheat imports, which totaled only 3.2 million tons last year, closer to the recent trend of over four million tons per year. Although the current wheat crop appears improved over last year, the imports may serve to offset possible contractions in the acreage allocated to fall-harvested food grains.

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URUGUAY: President Bordaberry has rejected the collective resignations of his cabinet and asked them to remain at their posts. Government ministers resigned en bloc on 1 June in order to give the President greater flexibility in his efforts to reach a national accord with conservative factions of the opposition Blanco Party. Bordaberry's refusal to accept the resignations could mean that he is having problems in negotiations with the Blancos or with other leaders in his own Colorado Party.

* * * *

PHILIPPINES: The legislature again is considering regulations to expand control over foreign banks. The proposals would require minimum deposits in the Philippines, local incorporation, and up to 60-percent ownership by Philippine nationals. Two of the four foreign banks are US-owned, one of which is the largest commercial bank in the country. Manila's latest proposals have been prompted primarily by the strong competition foreign banks have given local banks. The 60-percent ownership regulation is not as likely to be passed this year as the other strictly regulatory measures, but the mood of the country continues to be toward economic nationalism.

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